Home (https://housing.com/news/) » Property Trends (https://housing.com/news/category/property-trends/) » How does land banking work in India's real estate market?

How does land banking work in India's real estate market?

BY [RAVINDRA PAI (HTTPS://HOUSING.COM/NEWS/AUTHOR/RAVINDRA-PAI/)](https://housing.com/news/author/ravindra-pai/) | NOVEMBER 30, 2018

We get an expert's view on how land banking – the process of aggregating several parcels of land for future sale or development – impacts India's real estate market and the benefits that it offers to developers and landowners

What is land banking and how does the business of land banking work?

Land banking is the practice of aggregating parcels or blocks of land at current market rates or lower, for future sale or development. A land aggregator aggregates land by tracking the geographical and topological locations, which are primed for investment, based on social infrastructure and demographic factors. Generally, the land originates to the aggregator in an unprepared format, wherein, he prepares the title reports, property boundary, zone regulations, conversions, registrations, approvals and sanctions for the land, after which, the land is primed for sale or development. Land aggregators buy land, wait for the land value to appreciate and then, sell the same to developers, investors and other interested parties for a substantial profit.

Organisations that engage in land banking Land banking models in India

1. Federal, state and local governments: Government agencies use land banking to support longterm civic planning or to support future economic development. Municipalities gain and hold ownership of land to be used for new roads, metro stations, hospitals, schools, parks or for economic or residential development efforts.
2. Businesses: A city's master plan, which outlines the infrastructure that is planned for a region, can serve as a guide to plan the procurement of land. The aggregators can purchase and hold undeveloped or pre-developed land parcels, which expected to increase in market value, for long-term business gains.

3. Universities and non-profit entities: Universities and non-profit entities purchase land for future growth and/or expansion in public interest.
4. Individuals: Owning properties, including land, provides a sense of security. Individuals can use land as wealth creation vehicles, either for their retirement plans, to pay for their children's education, or to create a family legacy.

Buying and selling model: In this model, the land aggregator will buy land from the primary landowner and sell it to a third party.

Joint development model: This is a popular development model, adopted by most of the land owners, wherein, the land owner and developer combine their resources and efforts. Under the joint development model, the land owner contributes his land and the developer assumes the responsibility of development.

Land leasing model: This model is generally adopted for a long lease of the property, where land owners offer the land without any development. Mobilising land through leasing contracts is less expensive than through the buying and selling model. Here, the land aggregator works as a middleman between land owners and the third party, to process lease contracts, provide guarantees to the procedure and to process the mobilisation of land.

See also: How to do due diligence for land purchase (https://housing.com/news/due-diligenceland-purchase/)

Key factors deciding the location of land banking

1. Land: The land should ideally be stable and usable.
2. Title: The land should have a clear and marketable title.
3. Connectivity: The land should be well-connected (present and future) by road, rail, sea and air.
4. Social infrastructure: Public infrastructure related to health, education, housing, transport and civic amenities, should be available in the vicinity.

5. Availability of amenities: The land should have easy access to general amenities (present and future) such as water and electricity, among others.

6. Educational institutes: Existing (or upcoming) schools and universities.

7. Growth factors: In-line with demographic, geographic, civic and industrial growth.

In addition to the above factors, the surrounding commercial and residential development around the property, are also major factors in land banking.

Phases of land banking

Under-developed/early phase: Any land that interests aggregators, starts out as farmland, agricultural land or non-converted land. Land does not see any appreciable increase in value, until it falls in line with the development path.

Pre-developed/growth phase: The value of the land starts to increase dramatically, once the land and its surrounding areas start to develop with social infrastructure.

Developed/matured phase: Land is converted to a housing or commercial property and thereafter, its value increases slowly.

The full potential of land banking can only be realised, if the land is purchased in the underdeveloped/early phase. Land banking works on the premise of patience. Most investors ignore land banking as an investment, due to the long term nature of the business.

The benefits of land banking, for buyers and sellers

Benefits for buyers

1. Appreciation of the land's value: Land is one of the few assets that appreciate over time. Hence, buying land, with high development potential, at or near its present market value, ensures maximum value deliverance to the investor. If the land is secured at a time when demand is low, which also means a lower acquisition price, a substantial profit can be made in the future, when the demand is high.

2. Value addition: Value addition to the site is possible, by obtaining property development approvals and then, over time, proceeding with property development. Value addition makes the land more attractive for developers, who may be willing to pay a premium for it. Alternatively, the land banker may opt for financing and continue with property development.

Benefits for sellers

1. Above-market rates for the land: Land bankers generally buy lands at rates above market value and offer no significant return on investment at the moment of purchase. Hence, the seller gets an above-market rate on his or her land.

2. Elimination of risk: The seller is able to eliminate the element of risk attached to his land, in the event that it offers no significant return on investment, due to its unsuitability for commercial and/or agricultural purposes.

Status of land banking in India

According to the Thomson Reuters Foundation, the average size of land holdings in India is 11,500 sq metres, with more than two-thirds of owners holding fewer than 40,000 sq metres of cultivable land. In rural India, over 56 per cent of the households own no land. “Even as the size of holdings declined due, to indebtedness and inheritance over the decades, demand for land for industrial and development use (https://housing.com/news/telangana-bring-key-changes-land-recordadministration/) has increased, as the economy expanded. This has led to conflicts between farmers and states, stalling projects worth billions of dollars,” it added.

With the implementation of demonetisation, the Real Estate (Regulation and Development) Act (RERA) and the Goods and Services Tax (GST), many small land bankers sold their inventories to larger players. A shortage of funds and the prolonged slowdown in the real estate market, have forced many mid and small-sized developers to partner with large developers, for completion of projects.

Impact of RERA and GST

Momentum is also building, for the inclusion of real estate within the ambit of GST, with several states backing finance minister Arun Jaitley's suggestion that real estate should be brought under the GST. The GST Council meeting on November 9, 2017, could not arrive at a simplification of the process and has postponed the decision to the next meeting. Moreover, such a measure (bringing real estate under GST) would require an amendment to the constitution. At present, schedule seven of the constitution lists taxation of land and buildings, as part of the state list. Since July 1, 2017, leasing of land, renting of buildings, as well as EMIs paid for purchase of under-construction houses, have been attracting GST. Any lease, tenancy, easement, or license to occupy land is considered as supply of service and hence, comes under the central GST (CGST).

(The writer is managing director, Century Real Estate)